

ANALYSIS OF THE CHARCOAL MARKET SEGMENT

JULY 1978

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Analysis of the Charcoal Market Segment

At the request of the Japan Tobacco and Salt Public Corporation, the Philip Morris U.S.A. Market Research Department has completed an analysis of the charcoal market segment. The purpose of the analysis is to evaluate the potential of a low tar charcoal cigarette as the J.T.S. "New Product" under the Philip Morris/J.T.S. cross license agreement.

The market shares of charcoal brands have been compiled from 1974 through the first quarter of 1978 and this data is attached together with sample advertising of specific brands.

Total Charcoal Segment

The total charcoal category has declined steadily from a 4.99% share of market in 1974 to 3.66% share in the first quarter of 1978. This trend includes both the 85mm and 100mm categories and it is anticipated that the segment will continue to lose market share in the future.

Consumer research indicates that the charcoal market derives its limited strength from older smokers and has little appeal to younger smokers. For example, charcoal brands hold only a 1.0% share among 18 to 24 year old smokers compared to 5.4% among smokers 55 years old and older.

Several years ago a market research project was conducted to ascertain consumer perception of charcoal filters. This

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research indicated that virtually none of the consumers tested ascribed any important or unique filtering characteristics to activated charcoal. Most considered charcoal to be simply an advertising gimmick. These smokers also viewed a charcoal cigarette as yielding a flat and bland taste. The research further indicated that many smokers of charcoal brands were not aware that their brands had charcoal filters. Clearly, most did not choose their cigarette because of the charcoal. While it is possible that consumer perceptions of charcoal filters have changed since these tests were conducted, it is not believed that any strongly positive perception has developed as evidenced by the continued decline of the charcoal segment's market share.

Low Tar Charcoal Segment

Within the charcoal segment a shift to lower tar brands is evident as has been the case for the cigarette market as a whole. However, the modest gains in the low tar segment have not been sufficient to offset the overall decline of total charcoal sales. The low tar 85mm share grew to a peak .64% for the second quarter of 1977 declining thereafter to a .48% share in the first quarter of this year. The low tar 100mm share grew from .45% in 1974 to .48% in the fourth quarter of 1977. In the first quarter of 1978 this segment increased to .71% based on the introduction of TAREYTON LIGHTS 100'S. However, a substantial portion of this brand's .23% share during the first quarter of 1978 represents the initial filling of distribution channels. 1002480107

Brand Review

The leading brand in the charcoal segment is TAREYTON. Both the 85mm and 100mm versions have been line extended into the low tar category. It is estimated that nearly \$16 million in media expenditures were made for TAREYTON in 1977. This figure does not include promotional expenditures and virtually all of the \$16 million was in support of the two Lights line extensions. Despite this marketing support, neither line extension has attained significant volume. Total TAREYTON sales continue to decline, as do those of LARK, the second largest brand within the segment. Only PARLIAMENT 100'S, which does not emphasize its charcoal filter, has been able to maintain its market share.

Two brands have been tested in the market place using the positioning of low tar, low "gas". The first of these, FACT, was introduced by Brown & Williamson in September 1976. FACT was not a charcoal filter, but because of J.T.S.'s interest in a low "gas" cigarette, an analysis of the brand's performance is included here. Available in both regular and menthol, FACT contained 14 mgs. tar and 1.0 mgs. nicotine. The brand was advertised as "the low gas, low tar cigarette" and was supported with a first year advertising and promotional budget of approximately \$30 million. Nine months after introduction, the brand was able to sustain only a .1% market share. In October 1977, FACT was re-launched with an additional two month advertising

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and promotional budget of \$10 million. The re-launched brand featured new packaging, a lower tar level (8 mgs.) and less emphasis was placed on the gas claim. After poor consumer reception, FACT was withdrawn from the market in March 1978.

The second low "gas" brand, LARK II, was placed in test market in Miami by Liggett & Myers in July 1977. LARK II is a charcoal brand with advertising emphasis on the low tar, low "gas" positioning. Despite heavy spending and promotional support LARK II has only been able to achieve a .15% share after a full year of test market.

Summary

Based on the above analysis, we conclude that there is a declining interest in the established charcoal brands and that manufacturers have been unsuccessful in stimulating consumer demand through either low tar line extensions or emphasis on low "gas". Further, it is concluded that a new brand introduction based on either a charcoal or "gas" positioning would have little or no chance of success, even if supported by heavy marketing expenditures.

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CHARCOAL CATEGORY SHARE OF MARKET

	SHARE OF MARKET								
	1974	1975	1976	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Yr. 1977	1st Qtr.
85MM Non-Low Tar	2.74%	2.44%	2.04%	1.76%	1.66%	1.63%	1.50%	1.62%	1.47%
85MM Low Tar	.40	.34	.38	.51	.64	.52	.54	.54	.48
Total 85MM	3.14	2.78	2.32	2.27	2.30	2.15	2.12	2.16	1.95
100MM Non-Low Tar	1.40	1.31	1.23	1.20	1.01	.99	1.02	1.10	1.00
100MM Low Tar	.45	.47	.47	.48	.48	.48	.48	.48	.71
Total 100MM	1.85	1.78	1.70	1.68	1.49	1.47	1.50	1.58	1.71
Total Low Tar	.85	.81	.85	.99	1.12	1.00	1.02	1.02	1.19
Total Charcoal	4.99%	4.56%	4.02%	3.95%	3.79%	3.62%	3.54%	3.74%	3.66%

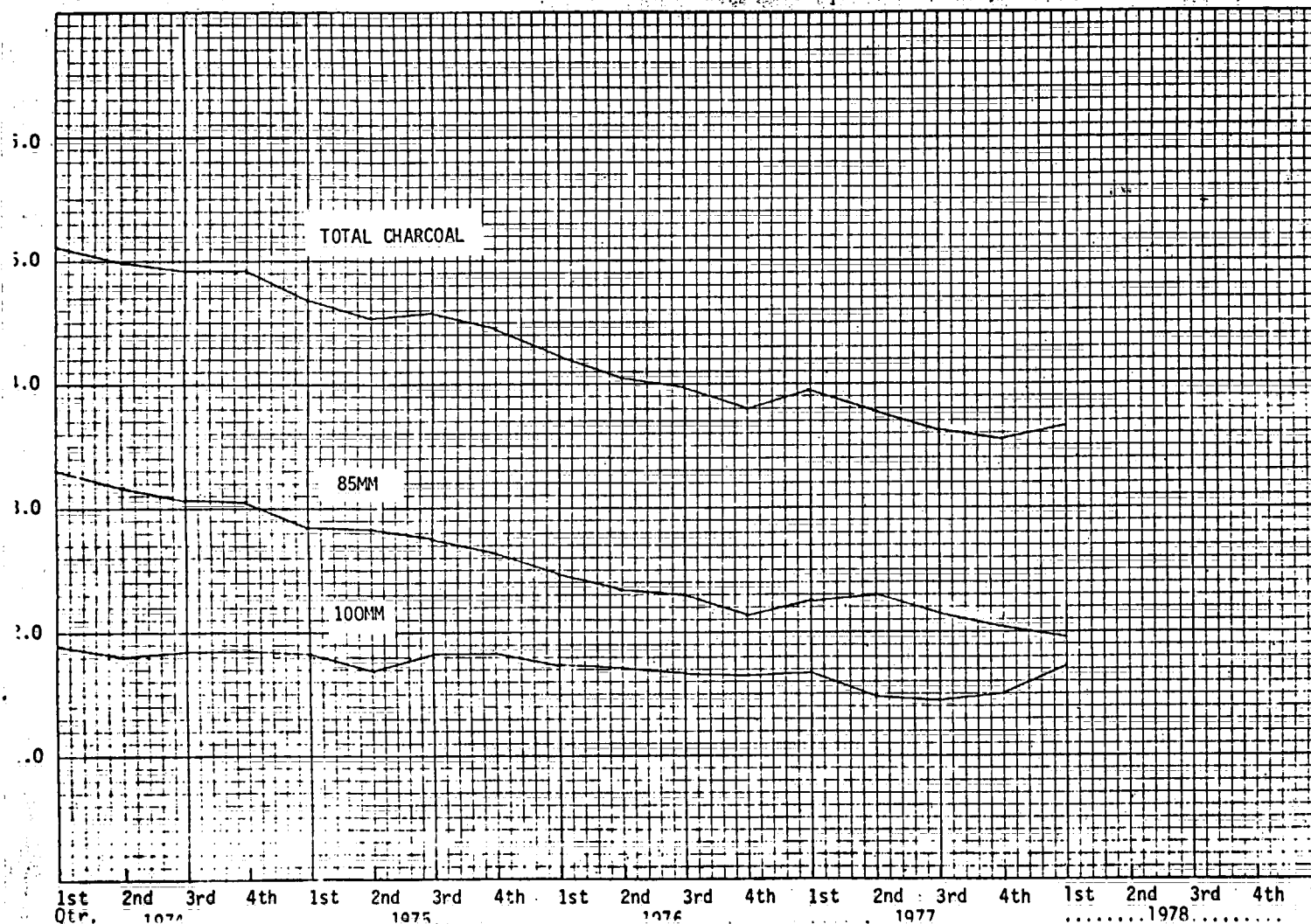
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CHARCOAL BRANDS' MARKET SHARES
1974-78

	SHARE OF MARKET								
	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1st</u> <u>Qtr.</u>	<u>2nd</u> <u>Qtr.</u>	<u>3rd</u> <u>Qtr.</u>	<u>4th</u> <u>Qtr.</u>	<u>Yr.</u> <u>1977</u>	<u>1st</u> <u>Qtr.</u>
Tareyton 85's	1.95%	1.73%	1.42%	1.25%	1.15%	1.13%	1.05%	1.14%	1.02%
Tareyton Lights 85's	-	-	-	.25	.39	.28	.31	.29	.26
Tareyton 100's	1.11	1.04	.96	.97	.78	.77	.80	.87	.78
Tareyton Lights 100's	-	-	-	-	-	-	.01	-	.23
Total Tareyton	3.06	2.77	2.38	2.47	2.32	2.18	2.17	2.30	2.29
Lark 85's	.76	.69	.60	.49	.49	.48	.45	.48	.45
Lark 100's	.29	.27	.27	.23	.23	.22	.22	.23	.22
Total Lark	1.05	.96	.87	.72	.72	.70	.67	.71	.67
Parliament 100's	.45	.47	.47	.48	.48	.48	.47	.48	.48
Multifilter Reg.	.35	.33	.27	.24	.23	.22	.21	.23	.20
Multifilter Men.	.05	.01	.01	.02	.02	.02	.02	.02	.02
Total Multifilter	.40	.34	.28	.26	.25	.24	.23	.25	.22
Galaxy	.01	.01	.01	.01	.01	.01	-	.00	.00
Tempo	.02	.01	.01	.01	.01	.01	-	.00	.00
Total Charcoal	4.99%	4.56%	4.02%	3.95%	3.79%	3.62%	3.54%	3.74%	3.66%

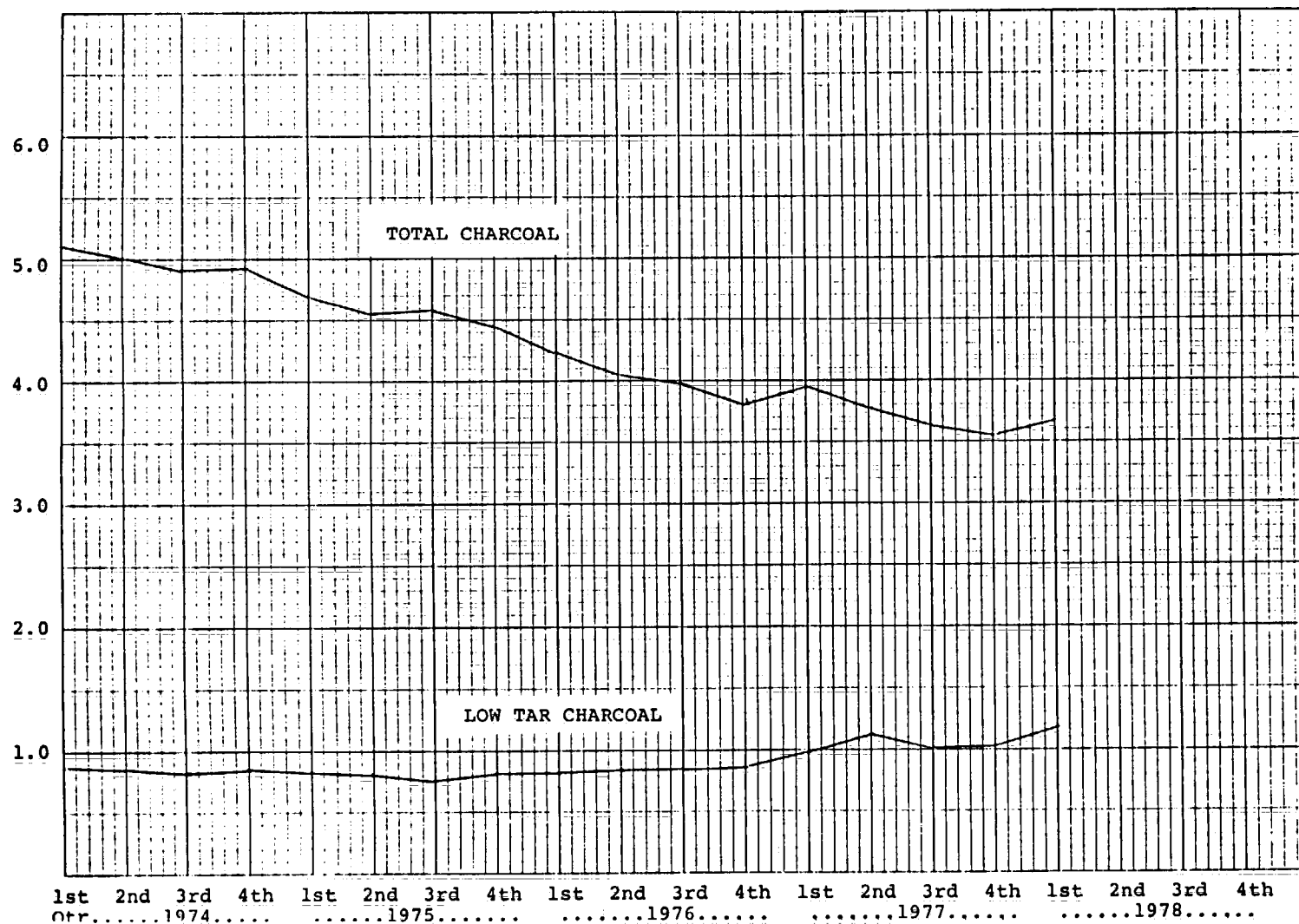
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CHARCOAL FILTER



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CHARCOAL FILTER



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New low-tar with

that Tareyton plus:

Flavor
improved by
charcoal.

The U.S. Environmental Protection Agency reports that charcoal is the best available method for filtering water. It's also used to mellow the taste of the finest bourbons.

Plain white filters remove taste. Tareyton's charcoal filter actually improves flavor. That's why Tareyton goes low-tar one better.

Only 8 mg.

New Tareyton lights

Also Tareyton Filter Kings and 100's

Warning: The Surgeon General Has Determined
That Cigarette Smoking Is Dangerous to Your Health.

Lights: 8 mg. "tar", 0.7 mg. nicotine
King Size: 16 mg. "tar", 1.2 mg. nicotine, 100 mm: 16 mg. "tar",
1.2 mg. nicotine av. per cigarette by FTC method.

"Us Tareyton smokers would
rather fight than switch."



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INITIAL INTRODUCTORY AD

Gas. It could change your brand to Fact.

You might not know it, but cigarette smoke is mostly gas—many different kinds. Not just tar and nicotine.

And despite what we tobacco people think, some critics of smoking say it's just as important to cut down on some of the gases as it is to lower tar and nicotine.

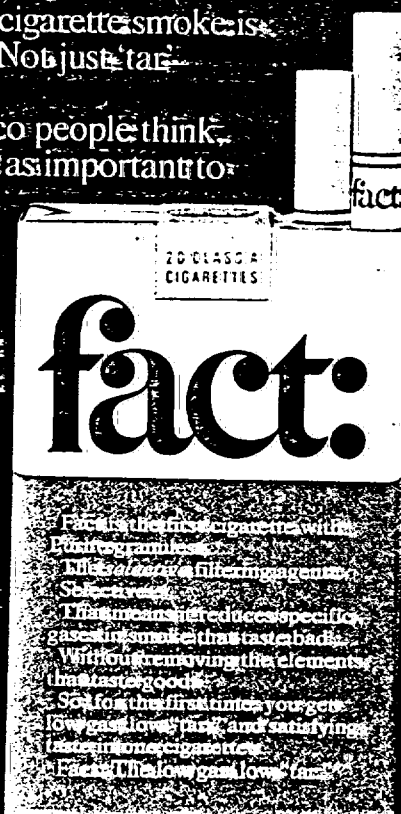
No ordinary cigarette does both. But Fact does.

Fact is the first cigarette with the revolutionary Purite filter. And Fact reduces gas concentrations while it reduces tar and nicotine.

Read the pack. It tells how you get the first low gas, low tar smoke with good, rich taste.

Taste as good as the leading king-size brand.

And that's not fiction. That's a Fact.



Available in regular and menthol.


Fact: The low gas, low tar.

Warning: The Surgeon General Has Determined
That Cigarette Smoking Is Dangerous to Your Health.

Regular, 14 mg. tar, 1.0 mg. nicotine; Menthol,
13 mg. tar, 1.0 mg. nicotine, av. per cigarette, by FTC method.

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AD REFLECTING RE-LAUNCH
POSITIONING PG 1



I'm realistic.
I only smoke Facts.

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FACT 1: We don't want your taste buds to go to sleep.

We believe there are elements in cigarette smoke that muddy the taste of fine tobaccos. They're called aldehydes.* And FACT reduces these aldehydes so you can enjoy wide-awake flavor instead.

FACT 2: We have smoke scrubbers in our filter.

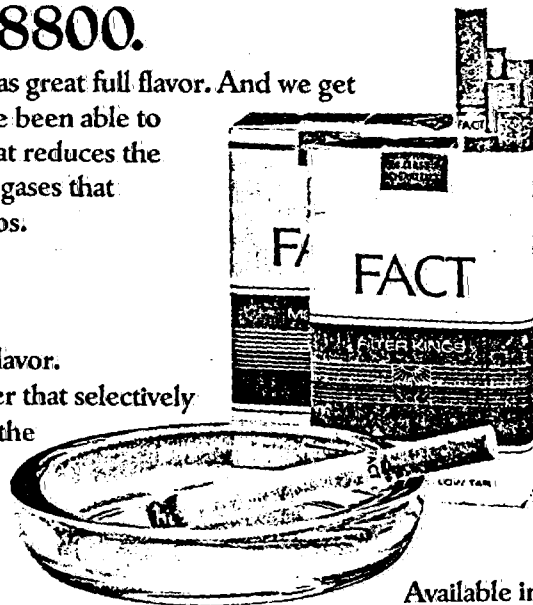
We believe this is a unique way of getting at tobacco flavor. As the smoke passes through the filter, these Purite® scrubbers work like magnets to reduce these aldehydes, while letting the good tobacco flavor come through.

FACT 3: A patent on flavor in low 'tar' cigarettes: #3828800.

Low 'tar' (8 mg.) FACT has great full flavor. And we get that flavor in a way so new we've been able to patent it. It's our Purite filter that reduces the aldehydes—those harsh-tasting gases that muddy the flavor of real tobaccos.

Add it up. Great tobacco flavor. Only 8 mg. 'tar'. A patented filter that selectively screens gases. Once you've got the facts, you'll get the FACTS.

*Formaldehyde, Crotonaldehyde, Acrolein.



Available in
regular and menthol.

Warning: The Surgeon General Has Determined
That Cigarette Smoking Is Dangerous to Your Health.

8 mg. "tar", 0.7 mg. nicotine av. per cigarette, by FTC method.

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"I know something you don't know..."



"I know the government is making a certain cigarette gas* as controversial as 'tar.'"



"I know some independent researchers are saying many low 'tar' cigarettes are actually high in this gas."



"I know my new Lark II is more than low 'tar'—it reduces this gas* dramatically."

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"I know
my new Lark II
is more than low 'tar'—it reduces
this gas* dramatically.



"And I know,
along with low 'tar' and low gas*, it
gives me a taste I really like.



"I smoke
New Lark II.
Only 8 mg. 'tar',
8 mg. gas.

Because I know.

8 mg. "tar," 0.7 mg. nicotine av.
per cigarette by FTC Method.

*Carbon monoxide—average yield in weight per
cigarette as determined by procedure developed and
published by Liggett & Myers Tobacco Company, Inc.

Warning: The Surgeon General Has Determined
That Cigarette Smoking Is Dangerous to Your Health.

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